Commentary of Fredric C. Cooper, April 19, 2010

On: Riegle Community Development and Regulatory Improvement Act of 1994

Concerning Re-Authorization of the CDFI Fund

Comments to consider for re-authorization:

The Fund's success and importance is, in part, attributable to factors implied or stated in the 1994 Act. These are factors that are rare within among Federal programs:

- CDFI Program makes institutional investments.
  Investments made based on the applicant's CBP, not for a project or a program, and therefore the Fund actually underwrites or evaluates the entire organization. Taking an institutional perspective has had a very powerful impact in driving the CDFI industry to view itself as being composed of mission driven businesses, which must position themselves to obtain <u>investments</u>. This is perhaps a subtle, but yet very important distinction, from being oriented toward obtaining grants. Investments imply a desire for a return on investment. The Fund seeks its return, even when the award is in the form of a grant, in the form of measurable community development impact.
- CDFI Program has a wide range of investment vehicles.
  The Fund is one of the few federal agencies that can make such a wide range of investments, this capacity reflects the diverse types of institutions that compose the CDFI industry.
- The CDFI Program responds to local initiatives.
  There is no requirement, or mandate, for a city or state to have a CDFI. While communities are certainly better off it has vibrant CDFIs functioning in their area, there is not required. This is a distinct strength of the CDFI Program. Programs that are required of local jurisdictions often become ones with formulaic distribution of appropriations. Keeping the Program competitive has contributed greatly to the incredible growth of the CDFI industry.
- CDFI Program FA awards require a match.
  The requirement for matching funds has helped CDFIs diversify their sources of support and the outcome of raising matching funds is stronger connections in the markets served. Building these connections helps to educate wide segments of the community about the role of CDFIs and builds working partnerships. A specific possible change in authority would provide for the Fund to have greater flexibility on matching requirements. Such flexibility would be of great help to CDFIs, particular those located in and serving smaller communities where there is not a strong philanthropic presence and allow for accommodating challenging economic times. Such flexibility may allow for a two-to-one match of FA funds for first time FA awardees, smaller awardees, and awardees primarily serving market areas with unemployment or poverty rates (or some other measure) 1.5 times the national rate.

These strengths should perhaps be explicitly articulated in authorizing legislation, and if not they should be certainly preserved by implication.

Specific changes, in addition to the matching funds flexibility, would include: 1) make the purpose of FA awards to "increase the liquidity and improve the financial position of the CDFI". I suspect this would achieve greater clarity for OMB who may at times be challenged to understand the CDFI Programs purpose and how to conform that program with more typical, and non-institutional federal programs. The current language speaks to "...including enhancing liquidity to CDFIs." This language could be more specific.

2) allow TA awards to credit unions in formation, that is prior to receiving a charter from NCUA. Sponsoring organizations often desperately need additional funds at the pre-charter phase in order to build the plan to the point where the incipient CU can get chartered. The Fund would need to make sure that such use of TA was following other sources, and may even call for in this specific situation a TA matching requirement.

3) modify section 112, Investment of Receipts, which currently speaks to dividends on equity investments, to include interest received on loans made, and the return of equity investments and loan principal. With a corpus of assets the Fund could use such capital to engage in cutting edge ideas and initiatives that are not including in current year appropriations.

Finally a thought about how to have CDFIs active in places where they are needed the most. This comment speaks in part to use of current authority. The Fund could invite research proposals that would map existing CDFIs based on type of service (financial services by depositories, micro loans, business loan, facility loans, individual mortgage loans, etc.) and quantity of such services in each state and in the 50 largest metro areas, relative to the amount of poverty in each area measured. This would provide a picture of where CDFIs have the deepest presence and where they are not present. With this knowledge the Fund could invite existing CDFIs, or their parners, to expand their range of services or market reach to serve the underserved communities or to help establish an entity that could provide the service needed or serve the underserved place. Such entities could be affiliated or non-affiliated. To achieve this , the Fund could consider the use of its authority under section 108(d) which allows awards in excess of the three-year $5 million cap for CDFIs creating an affiliate to serve areas underserved by other CDFis. To preserve such initiatives which could help take the CDFI industry to its next level , this authority should be preserved.

Thank you for your consideration of these remarks.

Respectfully submitted:

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